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Agenda Item 4

April 11, 2011

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. **SUBJECT:** Policies relevant to adoption of new asset classifications, asset allocation mix, and asset class ranges
- II. **PROGRAM:** Total Fund
- III. **RECOMMENDATION:** Recommend to the Investment Committee approval of the following:
 - a. Revision of Policy on Asset Allocation Strategy
 - b. Revision of the Policy on Benchmark Modification and Benchmark Details
 - c. Liquidity Asset Classification
 - 1) Adoption of Policy on Liquidity
 - 2) Revision of Policy on Low Duration Fixed Income Program
 - d. Adoption of Policy on Inflation Assets and its components: Commodities and Inflation-Linked Bonds
 - e. Adoption of Policy on Real Assets and its components: Real Estate, Forestland, and Infrastructure
 - f. Repeal of Policies on:
 - 1) Inflation-Linked Asset Class (ILAC)
 - 2) Real Estate

IV. ANALYSIS:

The Asset Liability Workshop was held in November 2010. Subsequently, the Investment Committee approved new asset classifications, asset allocation mix, and asset class ranges. The revised and new policies presented in this item will establish a framework to implement the new asset classifications, mix and ranges.

The new Inflation Assets and Real Assets policies contain attachments and content taken from the existing ILAC and Real Estate policies. The moved content will be black-lined in the new policies. Pursuant to the adoption of the new policies, the ILAC and Real Estate policies will be repealed.

Below is a list of each policy and their associated documents:

[TAB 4a] Revision of Policy on Asset Allocation Strategy

- Agenda Item 4a Cover Memo
- Revised Black-Lined Policy
- Wilshire Opinion Letter

[TAB 4b] Revision of Policy on Benchmark Modification and Benchmark Details

- Agenda Item 4b Cover Memo
- Revised Black-Lined Policy

[TAB 4c] Liquidity Asset Classification: Adoption of Policy on Liquidity

- Agenda Item 4c Cover Memo
- New Policy
- Wilshire Opinion Letter

[TAB 4d] Adoption of Policy on Inflation Assets and its components: Commodities and Inflation-Linked Bonds

- Agenda Item 4d Cover Memo
- New Policy & Glossary
- Wilshire Opinion Letter

[TAB 4e] Adoption of Policy on Real Assets and its components: Real Estate, Forestland, and Infrastructure

- Agenda Item 4e Cover Memo
- New Policy & Glossary
- Wilshire Opinion Letter
- PCA Opinion Letter
- Meketa Investment Group Opinion Letter

V. STRATEGIC PLAN:

I. Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.

VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Results and costs associated with these policy updates are included on the individual agenda item cover memos, each pertaining to the individual policies.

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